



FINANCIAL SERVICES KNOWLEDGE GENERATION

Contract No. GEG-I-01-02-00013; Task Order 1

Quarterly Progress Report #2
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Submitted to:
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in collaboration with

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I. PROJECT OBJECTIVE

Through the Knowledge Generation task order, USAID's Microenterprise Division has contracted the Chemonics Accelerated Microenterprise Advancement Project (AMAP)/ Financial Services (FS) Consortium to conduct research, establish best practices and create new tools and strategies to further the field of microfinance. The Chemonics Consortium will generate knowledge that will help move the microfinance field forward in its efforts to extend efficient, sustainable and quality financial services to the poor. This new knowledge will also help increase the capacity of the Economic Growth, Agriculture, and Trade Bureau/Office of Microenterprise Development (EGAT/MD) and its partner USAID Missions to design and strengthen the implementation and monitoring/evaluation of USAID-supported microfinance projects.

The task order includes three primary components: *Component 1: Core Knowledge Generation* encompasses the majority of activities carried out under this Task Order and will form part of a three year knowledge generation agenda to be developed in collaboration with the contractors and implemented under an annual workplan; *Component 2: Short Term Technical Services* includes short-term technical services and training activities specified by technical directions provided by the USAID/MD office; *Component 3: Knowledge Management/Collaboration* allows each of the contractors to support knowledge generation, synthesis and cross-fertilization with the Financial Services sector of AMAP as well as across the other two sectors, Enabling Environment and Business Development Services. To date, USAID has obligated \$800,000 under Component 1 for Project Year 1. No funds have been obligated for Components 2 and 3.

II. QUARTERLY ACTIVITIES

A. Progress on Knowledge Generation Research Topics

A1. Access to Private Capital

During the second quarter, activities have focused on mobilizing the "MFI Investment Context, Trends and Potential" research initiative. Work has focused on three main areas:

- Project Start-up
- Context Paper research
- Stakeholder network development

Project Start-up

We received approval to begin work on the Access to Private Capital workplan on January 14, 2004. During project start-up, Marc de Sousa-Shields, the Research Director identified the research team members for the MFI context paper. The team includes Cheryl Frankiewicz, Eileen Miamidian and Jos Van Der Sterren. An on-line file sharing facility and communications protocol was established with researchers who are scheduled to undertake research in the second year of the project, including Jens Reinke of IRIS and Gary Woller. Mr. de Sousa-Shields, Ms. Sherry Sposeep and Ms. Anna Bantug of Chemonics, met with USAID to discuss the direction of this research initiative and the purpose of the project planning working scheduled for May 2004 in

Washington, DC, the possibility of organizing a similar workshop in Poland with European donors and stakeholders, and ideas for possible collaboration and coordination with stakeholders and contractors.

Context Paper Research

In preparation for the MFI context paper, Mr. de Sousa-Shields (Research Director) and Ms. Frankiewicz developed a guiding research framework for both the supply (investor and investment) and demand (MFIs) sides of the Context Paper. They finalized the research methodology and determined which areas each researcher would focus on for the MFI Concept paper. Mr. de Sousa-Shields and Ms. Frankiewicz together will guide the research agenda and direction. Ms. Frankiewicz and Ms. Miamidian is leading the demand side research. Mr. de Sousa-Shields and Mr. Van Der Sterren is leading the supply side research.

The research team further initiated a literature review with anticipated completion in mid-May. Several key stakeholders were contacted for preliminary input into the research agenda and direction including Nancy Barry of Women's World Banking, Damian von Stauffenberg of MicroRate, Tor Jansson of the IFC, Xavier Reille from CGAP, Robert Annibale from CitiGroup, Alvaro Ramirez from IADB and Alex Silva from Profund. Interest and feedback from these stakeholders into the research agenda was positive.

Stakeholder Network Development

A project planning workshop is scheduled for May 14, 2004 in Washington, D.C. Approximately 25 key stakeholders have been invited, primarily from the U.S, as well as Alex Silva of ProFund. Ms. Sposeep and Ms. Bantug are providing logistical support for the workshop.

Mr. de Sousa Shields and Ms. Frankiewicz are compiling an extensive project stakeholder list of over 100 people. Most of the stakeholders on the supply side have been completed and we are working with MFI stakeholders on the demand side. Stakeholders will be invited to participate in a list serve currently being organized by Mr. de Sousa-Shields. The list serve should be functional by the end of May when initial project promotion is completed (i.e. initial round of interviews, requests for input, etc).

Project Leverage

Mr. de Sousa Shields is currently negotiating with key stakeholders to co-host a conference on Financing Microfinance Institutions for early 2005. Enterprising Solutions is guest editing an edition of the MicroBanking Bulletin which focuses on Financing Microfinance Institutions, scheduled for publication in late 2004.

A2. Legal and Regulatory Framework

Activities on this research project started in early February upon USAID approval for LOE. The following activities have been carried out so far:

Literature review.

Dr. Jens Reinke, one of IRIS' Legal and Regulatory Specialists, has started a literature review assembling strands of knowledge from microfinance research, financial regulation, and practitioners' writings particularly for developing country central banks. The literature has been culled from the Bank of International Standards (BIS), the Bank

of England, World Bank, IMF, CGAP, Asian Development Bank, Inter-American Development Bank, Brookings Institution, writings in accredited journals in economics and financial regulations, and USAID-supported research. Dr. Reinke has spoken with World Bank and academic scholars who have compiled survey results from 107 different countries regarding financial regulatory environments. Initial results show a discontinuity between the body of literature generated by microfinance practitioners and researchers on one side, and by financial sector experts on the other. The project will focus on addressing this gap by bringing sound regulatory principles to bear on microfinance-oriented regulatory reform.

Kate Druschel, a Microfinance Specialist, has also begun compiling a country-specific background literature review to prepare further for the fieldwork. Information will be culled largely from the central banks in each country, World Bank and IMF reports, and contacts with central bankers, microfinance networks, and other researchers working in these countries. Work on this will begin intensively once country selection is finalized.

Research planning.

The research team is composed of Mr. Thierry van Bastelaer, the Research Director, Dr. Reinke, Ms. Druschel, and Patrick Meagher, a Chemonics Legal and Regulatory Specialist. This team has identified initial research questions to address through the field work. The questions relate to the consistency of financial regulation in both complex and mature financial sectors, regulation as a catalyst to investment, and specific issues in both transition economies and countries with significant Islamic influence. The categories evolved from an analysis of existing regulatory typologies and the environment in which they came about. Knowledge that went in to this categorization came largely from the literature review and a review of financial regulatory environments IRIS is currently conducting for CGAP.

Considering these questions, the research team identified numerous countries as field work destinations, including Indonesia; Georgia; Ethiopia, Uganda, or Ghana; and Brazil. These countries were chosen based on several factors: their ability to represent the categories identified above; a relative lack of secondary material available such that fieldwork is necessary; a lack of previous extensive IRIS research on financial regulations in these countries from which to draw; and budget and timing considerations. There are a number of countries where secondary material is abundant, and/or IRIS has previously conducted research on the financial regulatory environment where knowledge will be contributed, specifically South Africa, Zambia, Nepal and Kyrgyzstan.

A3. Measuring Outreach

Conceptual Workshop. On January 22-23, 2004, a Conceptual Workshop was held in Washington, DC to vet, discuss and refine the conceptual framework that will guide the Measuring Outreach of Microfinance Institutions activity. The specific objectives of the Conceptual Workshop were to:

1. Review the conceptual literature on outreach and social return measurement.
2. Debate alternative conceptual approaches to outreach and social return measurement.
3. Agree on a workable conceptual framework.
4. Develop a specific research plan.

Workshop participants included:

- Gary Woller, Brigham Young University
- Mark Schreiner, Microfinance Risk Management
- Didier Thys, The MIX
- Richard Rosenberg, CGAP
- Elizabeth Rhyne, ACCION
- Leslie Barcus, Open Society Institute
- Omar Azfar, IRIS
- Isabelle Barres, The MIX
- Drew Tulchin, Social Capital Institute

After reviewing and discussing alternative conceptual frameworks for social return during the first day of the workshop, workshop participants agreed that the benefit-cost framework was the most theoretically and practically useful framework for measuring social return and that using the six dimensions of outreach offered the greatest potential for operationalizing the benefit-cost framework into a set of standardized indicators that could serve as a useful management tool and social return benchmarks. Participants spent the second day of the workshop discussing the theoretical and practical issues/problems operationalizing the outreach approach and possible indicators that might be used within each of the six dimensions of outreach.

Workshop Proceedings

Following the workshop, Research Director, Dr. Gary Woller, wrote up the workshop proceedings, which were submitted to USAID for review. After a number of rounds of comment and reply on the proceedings, Dr. Woller prepared, in conjunction with the Knowledge Generation Director, a final Scope of Work for the Measuring Outreach and Market Orientation projects (two sub-components of the same overall project). After a number of rounds of comment and revision, the SOW was submitted to USAID for approval. USAID approved the final SOW on March 31, 2004. Work on both components of the project will commence in the third quarter of Project Year 1.

A4. Rural and Agricultural Finance

On February 25, 2004, Stephanie Charitonenko, Research Director, and Ms. Sposeep of Chemonics met with USAID (representatives from the Office of Microenterprise Development and the Office of Agriculture), DAI, another AMAP prime contractor, and Ohio State University (OSU), DAI's subcontractor on the RAF research, for a one-day workshop. The group discussed the conceptual framework for the RAF research being conducting by both prime contractors and the joint research plan to be developed. Chemonics contracted Madeleine Hirschland, who facilitated this workshop and drafted a skeletal conceptual framework after the workshop.

Joint Research Plan

Following the workshop, Chemonics worked closely with Colleen Green and Ira Singh of DAI and OSU to develop a join workplan. Chemonics, DAI and OSU communicated regularly during a one and one-half month period to vet the conceptual framework and research plan drafts and identify broad gaps in the RAF research at the industry,

institutional and non-institutional level that would guide the case selection for the research. Chemonics met with DAI to prepare for submission of the joint research plan on March 11, 18, and 25. On March 31, Ms. Sposeep, and Ms. Carrie Averch of Chemonics and DAI met with USAID to vet the first draft of the research plan and revised the plan based upon feedback from USAID. The final draft research plan will be submitted to USAID on April 15. The research plan lays out the importance of rural and agricultural finance, research vision and guiding principles, conceptual framework (including research objectives, research hypotheses, environmental context, knowledge dissemination), a description of products and deliverables, research team, Gantt chart for proposed RAF research activities, RAF gap analysis, and illustrative decision making matrix for USAID Missions, and criteria for case study selection and analysis.

RAF Database

During the research planning process, Chemonics' Sherry Sposeep developed a database that both teams used to input data on existing projects and knowledge for rural and agricultural finance, which was used to conduct a gap analysis. Ms. Sposeep and DAI contacted various donors including CGAP, DFID, FAO, IFAD, IDB, and WB and practitioners, reviewed publications and other sources and collected information on RAF cases and potential cases, initiatives and models that might be explored in the AMAP research. Ms. Sposeep organized the data into an extensive database of financial and non-financial institutions engaged in rural and agricultural finance and cases, including savings mobilization.

On-line library

At the beginning of the joint research planning process, Ms. Sposeep organized the development of a rural finance on-line library hosted on the Chemonics' Knowledge Generation website. The site allowed Chemonics, DAI, and OSU to share and exchange documents during this process.

Rural Finance Focus Notes

Chemonics received USAID approval in March to conduct two rural finance focus notes on lessons learned drawn from Chemonics' projects. Work on Chemonics' two rural finance focus notes commenced on March 22. Anna Bantug is writing a two-page focus note on Chemonics' Senegal Dyna-entreprises (DES) project and Shannon Sanquist of Chemonics is writing a two-page focus note on the concept of Rural Savings and highlighting lessons learned from Philippines MABS and Madagascar's Caisse d'Epargne de Madagascar (CEM) projects. Caroline Averch of Chemonics is providing oversight and direction. The focus notes will be completed by the end of April.

A5. Microfinance in Conflict Areas

In January, Chemonics initiated a series of meetings with USAID to discuss the first round of activities to be undertaken under the "Microfinance in Conflict Areas" topic. The research team focused on two major activities during the second quarter.

1. Literature review and focus notes on Microfinance in Conflict-Affected Areas
2. Literature review and facilitation of discussion on Youth, Conflict and Microenterprise.

1. Microfinance in Conflict-Affected Areas: Literature Review and Focus Notes

During discussions with USAID in January 2004, USAID suggested that we conduct a literature review and develop two focus notes dealing with research on microfinance in conflict-affected areas. After further discussion with USAID, scopes of work were approved on February 2 for Dr. Geetha Nagarajan and Mr. Timothy Nourse to conduct these activities. During the first quarter of 2004, the team produced the following deliverables:

- Literature Review: Dr. Nagarajan, with assistance from Mr. Michael McNulty, conducted a literature review of the research that has been done to date in the area of microfinance in conflict-affected areas. The literature search covered best practices, essential and preferred conditions for microfinance, products and services suitable for conflict settings, appropriate lending methodologies, risk management and coping mechanisms, and methods and products for special population groups such as IDPs, returnees, refugees, demobilized soldiers, widows and youth. The findings were summarized into an interactive reference document that allows the user to search for documents by technical topic and geographic region. The document also includes hyperlinks to relevant websites, so that the information can be more easily accessed in the future.
- Focus Note #1: This eight-page focus note, prepared by Dr. Nagarajan, summarizes the best practices and lessons learned in microfinance in conflict settings and addresses the remaining research gaps.
- Focus Note #2: This eight-page focus note, prepared by Mr. Nourse, provides a thorough summary of ARC's experiences with microfinance programs in conflict-affected areas. This review of the ARC approach helps to draw out lessons and identify challenges and opportunities faced in attempting to implement microfinance programs for mobile populations affected by conflicts.

These were submitted to USAID for review on March 5, 2004. As of March 31, we were awaiting feedback from USAID.

2. *Youth, Conflict and Microenterprise*

During meetings held with USAID on February 2 and March 8, USAID expressed interest in examining youth, conflict and microenterprise development. After extensive discussion, Chemonics and USAID agreed that our team would conduct a literature review to assess what is already known related to at-risk youth and enterprise development (including microfinance and business development services, BDS) programming and to determine what key questions and issues remain. There have been very few studies conducted on this topic to date.

Before moving forward with this effort, Chemonics gathered feedback from numerous experts in the areas of youth amid conflict and microenterprise development. We held discussions with USAID's Conflict Mitigation and Management (CMM) office and EQUIP3 staff, along with the appropriate AMAP contact persons at USAID's Microenterprise Development office. Based on the input from this collaborative process, we developed a scope of work to examine the issue in two phases.

Phase I: The first phase of the research was approved on February 18 and is expected to be completed by July. In this phase, we have received approval to conduct the following tasks:

- Provide comments on the Youth and Conflict Toolkit produced by CMM
- Conduct a quick literature search to identify the lessons and gaps
- Write a brief concept paper to outline the issues
- Host a virtual conference on youth, conflict and microenterprise development
- Summarize feedback from virtual conference
- Write an 8 page focus note based on literature search and feedback from the virtual conference

Progress to date on these tasks is summarized below:

1. Youth and Conflict Toolkit Comments: The team has prepared detailed comments on CMM's draft Youth and Conflict Toolkit, which will be submitted to USAID with the literature review results by end of April.
2. Literature Review and Concept Paper: Dr. Nagarajan, assisted by Mr. McNulty, is completing a review of the literature on the intersection of youth in conflict-affected areas and microenterprise development. The team is preparing a brief concept paper and an interactive reference document summarizing the findings. The concept paper will be used to frame discussion in the virtual conference.
3. Virtual Conference (VC): A virtual conference is scheduled to be held by third week of May and will last for 3 days. We are currently discussing with USAID the best way to host the VC. The team is also coordinating with USAID and EQUIP3 to assemble a list of invitees for the conference. This VC will allow for interactive discussions between youth specialists, microfinance and BDS specialists so that they can become familiar with common issues and concerns involved in targeting at-risk youth for microfinance and BDS. A focus note based on the feedback will be produced by the end of July, 2004.

Phase II: Further discussions were held with USAID on March 23 to help fine tune the scope of work to incorporate language and definitions acceptable by youth, enterprise, conflict and microfinance specialists. Detailed feedback was received from CMM and EQUIP3. A revised scope of work integrating this feedback will be submitted for review and approval on April 12, 2004. Phase II is proposed to run for 4 months (August - November 2004) and will involve conducting a survey of key experts working with conflict-affected youth on enterprise development programs, two case studies, and a publication on *Key Issues and Broad Checklists for Targeting Conflict-affected Youth for Enterprise Development*.

In addition, on March 8, 2004, we submitted to USAID a scope of work to conduct field work to study microfinance amid conflict areas. These activities are programmed for later this year and would primarily involve ARC and international consultants. We are awaiting USAID's feedback on the Scope of Work (SOW).

A6. Implementation Grant Program (IGP) Lessons Learned

During this quarter, Chemonics continued to finalize a draft workplan for this research topic with USAID. On February 20th, USAID sent Chemonics a new draft SOW for the IGP Lessons Learned topic. The SOW included both mining of past grants and managing communities of practice initiatives among current grantees. Ms. Anita Campion and Ms. Sposeep provided written feedback on the draft SOW submitted USAID. After further discussion with USAID on the SOW, Ms. Campion further discussed this draft SOW with USAID and drafted another revised SOW for USAID's review. Chemonics plans to meet with USAID in the third quarter to finalize the workplan and launch this research topic.

A7. Mergers and Acquisitions, Including Change Management

This is a one-year topic that will begin in year 2.

A8. Hybrid Regulation and Supervision

This is a one-year topic that will begin in year 2.

A9. Subsidized Services for MFIs

This is a one-year topic that will begin in year 3.

A10. Alternative Delivery Mechanisms and Services

In January 2004, USAID determined that this topic would no longer be a separate topic within the Chemonics' Consortium research agenda. This research would be folded into the IGP Lessons Learned research, which would include an examination of various innovative delivery mechanisms and services.

B. Task Order Management

B1. Technical Management

Technical management of the task order during this quarter were intensive due to the close coordination activities within the Chemonics' AMAP-FS Consortium, among the other prime contractors on the AMAP IQCs, between the Consortium and the client, USAID and other donor organizations, and with the Support Services and Knowledge Management contractors in disseminating the research results.

In January 2004, Ms. Campion and Ms. Sposeep met with USAID several times to discuss the workplan approvals under Knowledge Generation. USAID said that the workplans submitted for the Legal and Regulatory Self Assessment Tool and Access to Private Capital research were approved for the first project year. Activities on the remaining research topics would be approved on a piecemeal approach for several reasons including budget constraints, the need to further refine the workplan and/or coordinate with other contractors or stakeholders to prevent redundancy or leverage resources.

Technical management activities further included coordinating with CGAP on their agricultural finance research initiatives, finalizing and distributing the Chemonics Knowledge Generation Consortium Fact Sheet, and hosting the Rural and Agricultural Finance workshop at the Chemonics headquarters.

In terms of knowledge management, Chemonics has been communicating closely with both QED and IRG, AMAP Support Services contractors, to improve knowledge sharing in the microfinance community. Chemonics met with QED to discuss AMAP deliverables, including formatting, graphic design and posting on USAID websites. Chemonics also provided input to IRG for the design of the AMAP website and was trained on the new COP software. In addition, Ms. Campion drafted a summary paper highlighting Chemonics' "Ten Best Approaches to Developing Communities of Practice," which has been shared with USAID and QED at no additional cost to the contract.

B2. Administrative Management

The Project Management Unit (PMU) was very active during the second quarter ensuring smooth administration of the Knowledge Generation task order. We issued two sub-task orders - to IRIS and Enterprising Solutions and approximately ten employment agreements to consultants on various research topics. We developed or assisted subcontractors in developing ten SOWs and coordinated the USAID approval process. We also fielded several consultants to Washington, DC during the quarter to attend research project planning workshops.

We developed a task tracker to stay on top of all of the administrative activities required within each research topic and an LOE tracker to keep abreast of expended LOE on each topic. In March 2004, USAID requested information from us on the LOE approved per topic to date. We pulled this information from our LOE and Approval trackers to create this matrix. Ms. Bantug was trained in Microsoft Project software and so that she can keep track of all research topic activities and deliverable deadlines.

III. BUDGET

Expenditures for this quarter totaled \$57,549. Expenses to date have been related to four of the research topics Rural and Agricultural Finance, Microfinance in Conflict Situations, Measuring Outreach, Transitions to Private Capital, as well as Task Order Management. See attached report "Financial Report Y1, Q2 2004."